

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7107

BILL NUMBER: SB 333

DATE PREPARED: Jan 29, 2002

BILL AMENDED: Jan 28, 2002

SUBJECT: Dockside Gaming and Pull Tabs.

FISCAL ANALYST: Jim Landers

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Dockside Gaming:* The bill authorizes riverboats to conduct dockside gaming while still requiring the riverboats to be self-propelled and to have a valid certificate of inspection from the United States Coast Guard. The bill repeals the riverboat cruising requirement and other statutes related to mandatory cruising. The bill requires the Riverboat Admission Tax to be paid with respect to the number of persons on board the riverboat at the time a passenger count is recorded. The bill requires the passenger counts to be conducted each day one hour after the riverboat begins admitting patrons and then every two hours thereafter.

Orange County Riverboat: The bill authorizes the issuance of a riverboat license for a riverboat operating in a historic preservation district in Orange County instead of upon Patoka Lake. The bill limits a riverboat operating in the historic preservation district to 500 electronic gaming devices.

Pari-mutuel Pull Tabs: The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park and Indianapolis Downs.

Riverboat Ownership: The bill removes the prohibition on a riverboat owner from owning more than a 10% interest in another riverboat and permits a person to own up to a 100% interest in not more than two riverboat licenses. The bill also provides that a person may not have an ownership interest in more than two riverboat owner's licenses. It specifies that a person is considered to have an ownership interest in a riverboat owner's license if the interest is owned directly or indirectly by the person or by an entity controlled by the person.

Other Provisions: The bill requires riverboat admission tickets, if issued, to display the toll-free telephone number to obtain information on drug, alcohol, and gambling addictions.

Effective Date: July 1, 2002.

Explanation of State Expenditures: (Revised) *Pari-mutuel Pull Tabs*: The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park and Indianapolis Downs (to be located in Shelby County). Under the bill, the Indiana Horse Racing Commission would be responsible for oversight of pari-mutuel pull tab operations at the two horse racing tracks. The bill limits the number of electronic pull tab terminals or devices that may be installed at the race tracks to 700 per track. The bill prohibits pari-mutuel pull tab sales in a county where a riverboat casino is docked, and prohibits any pull tab sales until both race tracks are in operation. (Indianapolis Downs must open by December 6, 2002, as a condition of receiving a track permit from the Horse Racing Commission.)

The Indiana Horse Racing Commission would incur additional administrative expenses relating to the licensing and regulation of pari-mutuel pull tab operations. The bill allows the Commission to impose an administrative fee to cover these costs. The bill also allows the Commission to contract with the Indiana Gaming Commission for the provision of services necessary to administer pari-mutuel pull tab games and specifies that the Gaming Commission provide input and assistance to the Horse Racing Commission in adopting rules to implement the Pari-mutuel Pull Tabs law.

Orange County Riverboat: The Indiana Gaming Commission would incur additional administrative expenses relating to the licensing of, and regulation of gaming at, the Orange County riverboat casino. As with the existing riverboat casinos, such administrative costs will be covered with revenue from license fees and the Riverboat Wagering Tax.

Explanation of State Revenues: (Revised) *Dockside Gaming*: The bill provides that a riverboat owner may commence dockside gaming operations allowing for continuous boarding of riverboat patrons. The change to dockside gaming is expected to increase both wagering and admissions on riverboats that operate in such a manner. As a result, dockside gaming is expected to increase revenue from both the Riverboat Wagering Tax and the Riverboat Admission Tax. While the bill would still allow riverboats to cruise, the fiscal impacts outlined below assume that all riverboats would choose to commence dockside operations. Estimates pertaining to particular riverboats and communities will be made available upon request. Since the dockside authorization would be effective July 1, 2002, the impact of the bill would begin in FY 2003.

If all of the existing riverboats were to begin dockside gaming operations, revenue from the Riverboat Wagering Tax could potentially increase as estimated in the table below: The state share of the increase, as determined by statute, is equal to 75%. The state share of the Wagering Tax is deposited in the Lottery and Gaming Surplus Account within the Build Indiana Fund.

Estimated Increase in Wagering Tax Revenue and Distribution

	FY 2003	FY 2004
Total Increase	\$111.0 M	\$114.9 M
State Share (75%)	83.3 M	86.2 M
Local Share (25%)	27.8 M	28.7 M

Likewise, if all existing riverboats begin dockside gaming operations, revenue from the Riverboat Admission Tax could potentially increase as estimated in the table below. The distributions specified in the table, as determined by statute, are made to the state and to local units from each \$3 Admission Tax.

Estimated Increase in Admission Tax Revenue and Distribution of Each \$3 Tax

	FY 2003	FY 2004
Total Increase	\$55.4 M - 57.0 M	\$56.1 M - 58.7 M
State Fair Comm. (\$0.15)	2.78 M - 2.85 M	2.8 M - 2.9 M
Div. of Mental Health (\$0.10)	1.85 M - 1.9 M	1.87 M - 1.96 M
Horse Racing Comm. (\$0.65)	12.0 M - 12.4 M	12.1 M - 12.7 M
Total State Share	16.6 M - 17.1 M	16.8 M - 17.6 M
Local Units (\$2.10)	38.8 M - 39.9 M	39.2 M - 41.1 M

Orange County Riverboat: Provided a riverboat casino commences operations in Orange County, the bill could potentially generate \$8.2 M to \$9.0 M annually in additional revenue to the *state* from the Riverboat Wagering and Admission Taxes. [Note: This estimate may be updated as new information becomes available.]

The bill would eliminate the Patoka Lake riverboat license and instead authorize licensing a riverboat casino located in Orange County within a Historic Preservation District that includes the real property owned by the historic resort hotels in French Lick and West Baden Springs. The bill also limits to 500 the number of electronic gaming devices at the Orange County riverboat. An Orange County casino could potentially generate \$11.8 M to \$12.9 M in additional annual revenue from the Riverboat Wagering and Admission Taxes. This estimate is based on the average Wagering and Admission Tax receipts during FY 2000, FY 2001, and the period from November 2000 to October 2001 from (1) the three smallest riverboats with respect to casino square feet and gaming positions and (2) the three riverboats having the lowest admissions totals. Totals for the November 2000 to October 2001 period also include wagering and admissions at the Belterra Casino. These estimates assume that an Orange County casino would be relatively small and that wagering overall would increase proportionately with the addition of the casino. The estimates also assume that admissions and wagering at the Orange County casino would be roughly 65% lower than that exhibited at the smallest riverboats because of the limitation on electronic gaming devices. On average, these riverboats currently operate about 1,400 electronic gaming devices. In addition, wagering on electronic gaming devices totals approximately 80% of the wagering total at these riverboats based on review of recent monthly revenue reports.

It is important to note that the bill likely would not impact state revenues until FY 2004 or FY 2005. This conclusion is based on the start-up times for the ten existing riverboat casinos as well as the fact that the bill would require voters in French Lick and West Baden Springs to pass a referendum allowing riverboat gambling in the county. It has taken an average of 17 months from the time the certificate of suitability was issued by the Gaming Commission for the ten existing riverboats to commence gaming operations. (The certificate of suitability is issued by the Gaming Commission to a person who has been chosen to receive a Riverboat Owner's License.)

Under current statute, 75% of the Wagering Tax revenue from the Orange County casino would be distributed to the Lottery and Gaming Surplus Account (LGSA) in the Build Indiana Fund. Thus, estimated additional revenue to the LGSA would range from \$6.6 M to \$7.2 M. Also, as determined by current statute, the following distributions would be made to the state from each \$3 Admission Tax at the Orange County casino.

\$1.00 to the Patoka Lake Development Account within the state General Fund (\$1.0 M - \$1.1 M);
\$0.50 to the state General Fund (\$500,000 - \$550,000); and
\$0.10 to the Division of Mental Health (\$100,000 - \$110,000).

Money in the Patoka Lake Development Account is administered by the State Department of Natural Resources. The Admission Tax distributions to the state would total approximately \$1.6 M to \$1.8 M annually.

License Fees: The bill also would impact revenue to the state from the Occupational License Fee and the Riverboat Owners' Fees. Given that there are already a number of licensed supplier's operating in the state, supplier's licenses may not be impacted by the bill. License fee revenue is distributed to the State Gaming Fund.

The Occupational License Fee is imposed on individuals employed in certain riverboat gambling occupations. The Application Fee is dependent on the type of license obtained, ranging from \$75 to \$1,000. The Annual License Fee is also dependent on the type of license obtained, ranging from \$25 to \$100. Revenue from the Application Fee totaled approximately \$1.26 M in FY 2001; and revenue from the Annual License totaled \$202,975 in FY 2001.

The Application Fee for an applicant for a Riverboat Owner's License is \$50,000 (or greater if the cost of investigating the applicant exceeds that amount), and the Initial License Fee for Owners is \$5,000. The Initial License is valid for five years. The Renewal License Fee for Riverboat Owners is \$5,000 and is imposed annually. In FY 2001 revenue from the Renewal License Fee totaled \$45,000. No revenue was collected from either the Application Fee or the Initial License Fee in FY 2001.

Pari-mutuel Pull Tabs: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance to live horse racing at Hoosier Park. The precise impact on Admission Tax revenue, however, is indeterminable. This tax is imposed only on paid admissions to a horse racing track and, presently, admission is charged at Hoosier Park for live racing. Under current law, 50% of the Admission Tax revenue is distributed to the state General Fund. In addition, an increase in attendance at Hoosier Park due to pull tab sales also could lead to an increase in wagering on live horse racing. This could potentially increase revenue to the state from the existing Pari-mutuel Wagering Tax. The extent of this impact also is currently indeterminable. The Wagering Tax is imposed at a rate of 2.5% of the total amount wagered on live races. The first \$150,000 of revenue from the Pari-mutuel

Wagering Tax is distributed to the Veterinary School Research Account, and the remainder of the revenue goes to the Lottery and Gaming Surplus Account within the Build Indiana Fund.

Background - Dockside Gaming: The estimated impact of dockside gaming in Indiana is based on the observed impact of dockside gaming in Illinois. Dockside gaming with continuous boarding of riverboat patrons began on Illinois riverboats as of June 26, 1999. Monthly totals for adjusted gross receipts and admissions were analyzed for a period of 67 months beginning with January 1996 and concluding with August 2001. The analysis controlled for the underlying monthly trend in both variables, for changes in the number and size of riverboat casinos during the period observed, for general economic conditions, and for seasonal differences. The results of this analysis indicate that during the months since dockside gaming began (July 1999 to August 2001) in Illinois, adjusted gross receipts have on average been about 30% higher than during the months prior to dockside gaming (January 1996 to June 1999). Likewise, the analysis indicated that riverboat admissions have on average been about 45% higher during the months since dockside gaming began.

The Wagering Tax impact is derived using the State Budget Agency's FY 2003 forecast as of January 22, 2001, for total Wagering Tax revenue equal to \$370.16 M. The FY 2004 estimate assumes 3.5% annual growth in wagering based on recent trends. The Admission Tax impact is based on an FY 2003 estimate derived using total riverboat admissions during the 12-month period from November 2000 to October 2001 (40.4 M), and assuming growth rates ranging from 1.1% to 3% annually. These growth rates are based on recent trends in admissions relative to casino space and in overall riverboat admissions. Thus, FY 2003 riverboat admissions are estimated to total approximately 41.1 M to 42.2 M. Total admissions are used to derive these estimates as the bill creates a system of counting passengers every two hours that would tend to replicate the existing system of counting riverboat admissions. Under the existing system, admissions are the sum of a turnstile count and a multiple excursion count. The turnstile count is the number of persons entering the riverboat, and the multiple excursion count is the number of persons remaining on the riverboat for an additional excursion (generally two hours in length).

It is important to note that the estimates assume the conditions that have existed in Illinois since dockside gaming commenced will be replicated in Indiana, if and when dockside gaming commences. This assumption may be problematic in particular since the competitive environment for Indiana riverboats may not be similar to that which has existed for Illinois riverboats. At the time dockside gaming began in Illinois, the primary competitors of Illinois riverboats were riverboats located in: (1) Indiana, where dockside gaming is not permitted; (2) Missouri, where continuous boarding of riverboat passengers was at the time not permitted and where a loss limit of \$500 per 2-hour gaming session remains in place; and (3) Iowa, where dockside gaming on riverboats was only allowed during the late fall and winter months. If dockside gaming were to be implemented in Indiana, the impact on riverboat wagering and admissions may not reach the level achieved in Illinois since Indiana riverboats would be competing, to a great extent, with riverboats in Illinois that already conduct dockside gaming. The presence of land-based casinos operating in Detroit, Michigan, also may serve to dampen the impact of a change to dockside gaming in Indiana. As a result, the estimates based on the Illinois experience may overestimate the impact that dockside gaming will ultimately have on the Riverboat Admission Tax and the Riverboat Wagering Tax in Indiana.

Explanation of Local Expenditures: (Revised) The bill would require a Historic Preservation District containing territory in both French Lick and West Baden Springs to be established in order to meet the qualifications for operating a riverboat casino in Orange County.

Explanation of Local Revenues: (Revised) *Dockside Gaming:* Under current statute, 25% of Wagering Tax

revenue is distributed to local units. As a result of dockside gaming, the Riverboat Wagering Tax to local units could potentially increase by an estimated \$27.8 M in FY 2003 and \$28.7 M in FY 2004 (See table under *Explanation of State Revenues* for state and local distribution amounts.) The distribution of the local share of the Wagering Tax depends upon the location of the riverboat from which the tax is collected. For Lake Michigan riverboats, and for riverboats on the Ohio River that are docked in the largest city in the county, the local share of Wagering Tax revenue is distributed to the city designated as the home dock. For riverboats on the Ohio River that are not docked in the largest city in the county, the local share of Wagering Tax revenue is distributed to the county in which the riverboat is docked.

If all existing riverboats commence dockside gaming operations, revenue to local units from the Riverboat Admission Tax could potentially increase by an estimated \$38.8 M to \$39.9 M in FY 2003 and \$39.2 M to \$41.1 M in FY 2004. (See table under *Explanation of State Revenues* for state and local distribution amounts.) The local share of each \$3 Admission Tax, as determined by statute, depends on the location of the riverboat from which the tax is collected. For riverboats located in counties contiguous to either Lake Michigan or the Ohio River, the following local distributions are made from each \$3 tax:

- \$1.00 to the city in which the riverboat is docked;*
- \$1.00 to the county in which the riverboat is docked; and
- \$0.10 to the county convention and visitor bureau or promotion fund.

*In counties along the Ohio River in which the riverboat is not docked in the largest city in the county, this \$1.00 is also distributed to the county.

Orange County Riverboat: An Orange County casino could potentially increase local revenue from the Riverboat Wagering and Admissions Taxes by approximately \$3.6 M to \$4.0 M annually. This estimate may be updated when new information becomes available.

Under current law, 25% of the Wagering Tax revenue would be distributed in equal shares to Orange, DuBois, and Crawford County. This would amount to an estimated \$2.2 M to \$2.4 M annually. (For discussion of total revenue impact and estimation methods see *Explanation of State Revenues*.) As a result, each county could potentially receive \$730,000 to \$800,000 annually in revenue from the Wagering Tax. Also, as determined by current statute, the following distributions would be made from each \$3 Admission Tax at the Orange County casino.

- \$1.00 in equal shares to Orange, DuBois, and Crawford Counties (\$330,000 - \$370,000 each); and
- \$0.40 to the Resource Conservation and Dev. Program serving Patoka Lake (\$400,000 - \$440,000).

Presumably, the funds to the Resource Conservation and Development Program would be utilized to leverage additional federal funding under the Program for conservation and development work on Patoka Lake. The Admission Tax distributions would total approximately \$1.4 M to \$1.5 M annually.

Pari-mutuel Pull Tabs: If attendance at Hoosier Park for live racing increases due to sales of pari-mutuel pull tabs, revenue to local units from the \$0.20 Pari-mutuel Admissions Tax could increase. The extent of this impact is indeterminable. Under current statute, 50% of admission tax revenue is distributed in equal shares to the city and county where the horse racing facility is located.

State Agencies Affected: Indiana Gaming Commission, Indiana Horse Racing Commission, Division of Mental Health, Department of Natural Resources.

Local Agencies Affected: Local units receiving revenue from the Riverboat Wagering Tax, the Riverboat Admission Tax, or the Pari-mutuel Admissions Tax.

Information Sources: Indiana Gaming Commission, *2000 Annual Report to the Governor*, February 28, 2001. Indiana Gaming Commission, *Monthly Summary of Wagering and Admission Tax*, Various Months. Illinois Gaming Board, *Monthly Riverboat Revenue Reports* (Jan. 1996 to Aug. 2001); Illinois Gaming Board, *1999 Annual Report*; Illinois Economic and Fiscal Commission, *Wagering in Illinois: 2000 Update*, September 2000; State Budget Agency, *Lottery and Gaming Revenue Forecast*, January 22, 2001; Bob Lain, State Budget Agency, (317) 232-5610; Indiana Horse Racing Commission, *2000 Annual Report to the Governor*, May 1, 2001; *2000 Annual Report*, Indiana Horse Racing Commission, May 1, 2001; *Indiana Handbook of Taxes and Appropriations, FY 2001*.